

Message Text

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ACTION AF-10

INFO OCT-01 EUR-12 ISO-00 CIAE-00 DODE-00 PM-05 H-01
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EB-08 TRSE-00 STR-07 OMB-01 CEA-01 COME-00 FRB-03
XMB-02 OPIC-03 LAB-04 SIL-01 NSCE-00 SSO-00
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FM AMEMBASSY KINSHASA

TO SECSTATE WASHDC NIACT IMMEDIATE 216

AMEMBASSY PARIS IMMEDIATE

AMEMBASSY BRUSSELS IMMEDIATE

C O N F I D E N T I A L SECTION 1 OF 2 KINSHASA 5861

PASS TREASURY

E.O. 11652: GDS

TAGS: EFIN, CG, EAID, US

SUBJECT: ECONOMIC ASSISTANCE TO ZAIRE: ADDITIONAL RECOM-
MENDATIONS FOR REFORM

REF: A) KIN 5675 B) KIN 5724

SUMMARY: A MORE DETAILED ANALYSIS OF ZAIRIAN ACTIONS REQUIRED TO
MAKE EFFECTIVE USE OF ADDITIONAL RESOURCES PROVIDED BELOW.
RECOMMENDATIONS SEEK REDRESS PRESENT INTERNAL ECONOMIC
MISMANAGEMENT AND INSTITUTE PRUDENT BUDGETARY AND FINANCIAL
CONTROLS TO RESTRAIN MOST GRIEVOUS ASPECTS OFFICIAL CORRUPTION
IMPINGING ON ECONOMIC AND POLITICAL WELL-BEING OF COUNTRY.
CORRECTIVE MEASURES WILL BY NECESSITY TAKE EFFECT ONLY AS
COMBINED WEIGHT OF ADMINISTRATIVE/POLICY REFORMS, REALISTIC
RESOURCE PRICING, AND EXTERNAL AID IN SUPPORT OF SENSIBLE
GOVERNMENT ACTIONS TO REVERSE TREND OF ECONOMIC ABUSES. ALL
REFORMS, OF COURSE, INCLUDED WITHIN OVERALL FRAMEWORK IMF
STANDBY ARRANGEMENT. RATIONALE IS TO PROVIDE GOZ WITH CONCRETE
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EXAMPLES OF IMMEDIATE ACTION POSSIBILITIES. END SUMMARY.

1. DOMESTIC RESOURCE ALLOCATION

MAIN SOURCE DISTORTION HAS BEEN EXPANDING GOVERNMENT CONSUMPTION
OF ECONOMIC PIE THROUGH UNRESTRAINED EXPANSION BUDGETARY
DEFICITS AND OPEN-ENDED DISBURSEMENTS THROUGH QUASI-
GOVERNMENT AGENCIES UNFETTERED BY BUDGETARY DISCIPLINE.

CIVIL SERVICE EXPANSION INCREASED 34 PERCENT IN 1974-77 PERIOD. PRESIDENTIAL OFFICE EXPENDITURES NOW APPROXIMATELY TWO-THIRDS TOTAL AND IS OUTSIDE ORDINARY BUDGET CONTROL. TO OUR KNOWLEDGE, NO 1978 BUDGET HAS YET BEEN DRAWN UP. MINISCULE ALLOCATION TO GOVERNMENT-ANNOUNCED PRIORITY AREAS SUCH AS AGRICULTURE HAS THWARTED DEVELOPMENT EFFORTS; DURING SIX-YEAR PERIOD ENDING 1976 BUDGET EXPENDITURES AVERAGED 28 PERCENT GDP AND CAPITAL EXPENDITURES ONLY 7 PERCENT. ALTHOUGH PRACTICAL ONLY OVER LONG RUN, REFORMS MUST INCLUDE SHARP REVISION THESE FIGURES.

COMBINATION STAGNATING DOMESTIC PRODUCTION COMBINED WITH ANNUAL INFLATION OF APPROXIMATELY 75 PER CENT DURING PAST TWO YEARS HAS EFFECTIVELY RATIONED BASIC NECESSITIES OUT OF REACH OF POOR AND MIDDLE INCOME CLASSES. KINSHASA HOSPITAL RECORDED ADMISSIONS OF YOUNG CHILDREN SUFFERING MALNUTRITION-RELATED CONDITIONS JUMPED FROM TENTH TO FIRST PLACE IN 3-YEAR PERIOD AND NOW ACCOUNT FOR OVER 50 PERCENT OF ADMISSIONS THIS AGE CATEGORY. IN LONG RUN, NO EFFECTIVE UTILIZATION CAN BE MADE OF ADDITIONAL FOOD-AID COMMODITIES (E.G., TO ALLEVIATE ABOVE-CITED CONDITION) UNLESS GOVERNMENT DEFICIT INDUCED INFLATION PUT UNDER CONTROL. UNLESS THIS DONE, CONTINUED RAMPANT INFLATION WILL PREVENT EVEN PL480 FOOD SALES AT AFFORDABLE PRICES.

WE SHOULD NOT SEEK SUBSTITUTE OUR OWN PRIORITIES FOR GOZ OR
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SUGGEST PROPER DISTRIBUTION OF ADJUSTMENT BURDEN AMONG SECTIONS ZAIRIAN SOCIETY. BELIEVE, HOWEVER, THESE SPECIFIC STRICTURES ARE NEEDED TO REINFORCE WHATEVER GENERAL IMF ADVICE PROVIDED. THEREFORE SUGGEST LONG RANGE TOUCHSTONE BY WHICH USG SHOULD JUDGE APPROPRIATENESS AND AMOUNT ADDITIONAL ASSISTANCE WOULD BE SIZE GOZ DEFICIT, DISTRIBUTION GOZ EXPENDITURES BETWEEN CURRENT AND CAPITAL EXPENDITURES, SIZE DEVELOPMENT BUDGET FOR AGRICULTURE (AMONG OTHERS), AND ACTIONS TO INCREASE NON-GEAMINES, NON-TRADE RELATED BUDGETARY REVENUES.

2. RELATIVE PRICES

A. FOREIGN TRADE-LARGE INFLATIONARY TREND, FIXED EXCHANGE RATE AND LITTLE PROFIT INDUCEMENT TO EXPORT EXPANSION HAS ENCOURAGED IMPORT INTENSITY OF ZAIRE ECONOMY. REALISTIC PRICING EXPORTS AND MORE EXPENSIVE IMPORTS REQUIRED TO BALANCE EXTERNAL RESOURCE GAP, WHICH UNLIKELY TO BE MET IN QUANTITY OR TIMELY FASHION FROM DONOR PLEDGES IN BRUSSELS. REPORTED SOZACOM EXERCISE OF "FORCE MAJEUR" CLAUSE IN COPPER CONTRACTS REDUCING EXPECTED SALES FROM APPROXIMATELY 40,000 TO 20,000 TONS PER MONTH INDICATE LONG-EXPECTED PRODUCTION HIATUS. HOWEVER IMPLEMENTED, I.E., EXPORT SUBSIDIES, ADDITIONAL IMPORT TAXES, OR STRAIGHT-FORWARD DEVALUATION REQUIRED ADJUST INTERNAL

DEMAND TO RESOURCES LIKELY BECOME AVAILABLE. GOZ SHOULD BE CAUTIONED PRICE ADJUSTMENT POLICY CAN ONLY WORK UNDER GENERAL RESTRAINT DOMESTIC DEMAND (SEE 1 ABOVE). (MOST IMPORTS NOW ON LOCAL MARKET REFLECT PARALLEL MARKET RATES.) ALSO, WINDFALL TAX AND EXCHANGE RECEIPTS CAN BE USED TO ALLEVIATE STRINGENT FINANCIAL POSITION GECAMINES (NOTED PARA 2 STATE 13691). IN ADDITION, LITTLE LIKELIHOOD EXCHANGE RECEIPTS FROM COFFEE OR OTHER EXPORTS LIKELY FLOW TO OFFICIAL COFFERS UNLESS REALISTIC PROFITABLE ALTERNATIVE PROVIDED. LARGE SKEWNESS BETWEEN LUXURY AND OTHER GOODS AVAILABLE KINSHASA MARKET MAY BE TRACED TO DISTORTIONS RELATIVE PRICES CREATED BY GOZ.

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PASS TREASURY

B. DOMESTIC PRODUCER PRICES-OVER LONG RUN, BASIC CONDITION FOR FURTHER FOOD ASSISTANCE MUST INCLUDE GOZ ACTION PARA ONE ABOVE AND ELIMINATION GOZ PRICE AND OTHER NON-MARKET CONTROLS ON INTERNAL MOVEMENT AGRICULTURAL GOODS IN COUNTRY. MISSION CAN PROVIDE SPECIFIC EXAMPLES ON REQUEST.

3. MANAGEMENT

AS INDICATED REF A, IMF AND OTHER DONOR EXPERTS AT CENTRAL BANK AND MINFIN REQUIRED. HOWEVER, EXPATRIATE EMPLOYMENT ONLY FIRST STEP: IMPLEMENTATION OF REFORM IS THE LITINUS TEST.

MORE DEEP-SEATED REFORM IS CREATION GOZ ECONOMIC COUNCIL WITH SUFFICIENT CLOUT TO TAKE REFORM STEPS WHICH MAY AFFECT ECONOMIC

INTERESTS OF POLITICALLY POWERFUL. IN CURRENT GOZ CLIMATE,
UNLIKELY REFORM MEASURES CAN BE TAKEN IF MINISTER-LEVEL
ENDORSEMENT PROVIDED INDIVIDUALLY.

4. RESCHEDULING AND ITS TERMS SHOULD BE USED AS ADDITIONAL
LEVERAGE AND/OR CARROT TO ASSURE IMPLEMENTATION REFORM MEASURES.
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5. DEVELOPMENT
BELIEVE THESE MEASURES PLUS SHORT-TERM MEASURES STATED REF B
ARE ESSENTIAL PRE-CONDITION TO EFFECTIVE UTILIZATION OF U.S.
ECONOMIC ASSISTANCE TO AID ZAIRE ECONOMY AND MAJORITY OF ITS
PEOPLE. AS THESE MEASURES IMPLEMENTED, MISSION
BELIEVES USG JUSTIFIED IN FOLLOWING HIGH OPTION AID LEVEL
INDICATED IN JUST-SUBMITTED ABS AND COUNTRY DEVELOPMENT
STRATEGY STATEMENT, INCLUDING HIGHER FOOD AID ASSISTANCE AND
PROGRAM SECTOR LOANS.
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